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CIRCULAR

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**VFM Study and Good Practice
Guide on the Appointment and
Use of Consultants**

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To
Principals of colleges

Circular type
Information

Summary
Main findings of the
value-for-money study and good
practice guide on the appointment
and use of consultants and
providers of professional services

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99/49

VFM Study and Good Practice Guide on the Appointment and Use of Consultants

Introduction

1 This circular summarises (at annex A) the findings of the value-for-money (VFM) study and good practice guide on the appointment and use of consultants and the providers of professional services in colleges. The study and accompanying good practice guide, *Professional Advice and Services: A good practice guide* was commissioned by the Council and the National Audit Office (NAO) and undertaken by Sterling Management Consultants Ltd. The membership of the steering group which assisted in the study and in the preparation of the good practice guide is at annex B.

Background

2 The Council has been enjoined by the NAO to take part in value-for-money studies in the sector with the aims of publishing good practice guides for some of the key activities undertaken by colleges. Subjects addressed by such studies to date include procurement, estate management, facilities management and marketing. A further study on benchmarking colleges' estate and facilities management costs and management statistics (arising from recommendations in earlier studies) is currently under consideration. The Council will also shortly publish a good practice guide to the use of colleges' companies.

Study

Aim and scope

3 The objectives of the study were to:

- assess and make recommendations on effectiveness, efficiency, propriety and economy in the appointment and use of external expert consultants and providers of professional services in a sample of further education (FE) colleges

- prepare good practice guidance and case study examples on the basis of the findings at the sample colleges and from relevant experience in other sectors
- provide, in the form of a good practice guide, advice that addresses the needs of governors, senior managers and operational managers at colleges.

4 The external consultancy and professional services provided by specialist third party organisations to colleges and considered in the study included:

- consultancy in relation to strategic and business planning
- legal services
- accountancy and financial services, including the preparation of financial forecasts and evaluation of capital projects (and other proposals requiring financial evaluation) and the preparation of financial appraisals
- specialist property and other technical advice relevant to the preparation of accommodation strategies, facilities management, project management and technical services in the implementation of capital project proposals, the sale and purchase of land and buildings and other capital assets
- market research into the potential future development of curriculum provision by individual colleges, in particular: to provide and estimate student number projections, and the market potential for relevant education and training services in strategic plans and in underpinning strategic plan submissions, capital project proposals and applications for capital project support to the Council
- the appointment of multi-disciplinary project teams to provide advice on the application of the government's private finance initiative (PFI) and public—private partnerships (PPP) initiative and the market-testing of capital project proposals under such initiatives
- the preparation of human resource strategies and assistance in their implementation

- information technology policy and its evaluation and implementation
- the employment of lecturing staff agencies.

5 The study did not consider the selection and use by colleges of external and internal auditors.

Methodology

6 Purchasing specialists Sterling Management Consultants Ltd (the consultants) were appointed after competitive tender, to undertake the value-for-money study and to produce a good practice guide for the sector based on the findings of the study. A steering group, including the NAO, the Council and sector representatives, was appointed to oversee the study which was conducted in three stages:

- stage 1 - validation of interview questionnaire with two sector colleges
- stage 2 - on-site interviews, firstly with a representative sample of 34 sector colleges to reflect the different locations, size and nature of colleges' activities, and secondly with a sample of nine suppliers
- stage 3 - validation of preliminary findings through a sector-wide questionnaire to which 136 colleges (31%) responded.

Findings

7 The findings and recommendations arising from the study are contained in the study report, a copy of which is enclosed for comment. Key points identified by consultants during the study include the following:

- the need for colleges to properly document purchasing procedures
- a rigorous and logical process should be applied to justify the need for external advice
- colleges could improve the terms of reference for consultancy activities
- more could be done by and between colleges to identify potential consultancy firms and to match more effectively their services to those of the colleges concerned
- informal discussions with potential advisers before their appointment can be

useful but should take place within an appropriate procedural framework so as to maintain absolute probity and transparency in the purchasing process

- colleges should avoid placing too much emphasis on price as the deciding factor in choosing a consultant/adviser and should ensure that consultants' proposals are truly comparable in terms of the scope and scale of the project
- colleges should not be too ready to accept consultants' proposed fee structures and should try to ensure that their own interests are best served before agreeing to such arrangements
- there is scope for colleges to negotiate more effectively with consultants, not only for price, but also on such issues as work content and payment terms
- colleges should ensure that the form of contract used is appropriate for consultancy
- colleges should ensure that appropriate project management arrangements are in place. This finding was supported by comments from suppliers who were critical of some colleges' performance
- procedures for formally drawing assignments to an end and for reviewing projects could be improved
- more attention could be given to ensuring that consultants' recommendations are implemented with the commitment of colleges' management. Where recommendations are not accepted there should be a formal procedure for rejecting them
- colleges could provide better feedback to consultants as to their proposals, their work and the results of their work to help improve the quality of service in the future.

8 A more detailed summary is provided at annex A.

Good Practice Guide

9 The accompanying guide recommends procedures and practices which address the findings of the study. The guide is commended to all concerned with the appointment and use of consultants and the providers of professional services to colleges, including college governors, senior management and those receiving and commissioning professional advice and services. Each chapter of the guide contains guidance on particular study areas. The guide is not intended to be prescriptive but recommends an approach to such activities to assist colleges. It also complements the Council's earlier good practice guide publications.

10 Two copies of *Professional Advice and Services: A good practice guide* are being sent to each sector college. One further copy is being sent to each college library. Additional copies may be obtained from The Stationery Office, price £17.95 (tel: 0870 600 5522 for orders). Other good practice guides published by the Council are available from The Stationery Office and include:

- *Effective Facilities Management: A good practice guide* (£16.95)
- *Estate Management in Further Education Colleges: A good practice guide* (£13.95)
- *Procurement: A good practice guide* (£15.95)
- *Marketing: A good practice guide* (£14.95).

Benchmarking Study

11 Colleges that are interested in participating in a study and good practice guide to benchmark colleges' key estate and facilities management costs and statistics are invited to contact Philip Head (01203 863119) or Dianne Brown (01203 863258) at the Council's Coventry office.



Key Findings and Recommendations on the Use of Consultants and Professional Advisers by Further Education Colleges in England

1 The following comments are a summary of the findings and conclusions from the interviews undertaken by Sterling Management Consultants Ltd with colleges and the suppliers of consultancy and professional services. These are fairly general in that the colleges in the sample varied significantly in terms of:

- size of college
- level of spend on professional services
- skills and expertise in buying professional services.

2 Nevertheless, some clear trends were visible. These are summarised below:

- a. the procurement of consultancy and professional services is often based on informal procedures and practices. This approach can work well in colleges that have a strong management team with sound commercial expertise and experience of buying and using professional services. Regardless of the expertise of the management team, it is important that colleges have properly documented purchasing procedures which are clearly understood by all those involved in the procurement process;
- b. the justification for hiring consultants is often based on an intuitive 'needs must' approach. While it may be self-evident in many cases that external advice is needed, a logical process is required to define and justify the exact extent of the consultancy input required and how the college will extract maximum benefit from it. Failure to apply rigorous logic at this stage can lead to vague or inappropriate terms of reference being set;

- c. the survey of suppliers, although based on a limited sample, suggests that colleges could improve the way in which they draft terms of reference. It was acknowledged that colleges can face difficulties in this area due to the complexity of the issues involved, lack of familiarity with the subject and lack of awareness of what is required as a brief;
- d. identifying potential advisers poses problems for colleges that are not in the habit of using them. There is little enthusiasm for a centralised approval scheme. However, there is a role already filled to some extent by bodies such as the Association of Colleges in helping colleges to network and share information and in helping colleges to help themselves by creating awareness of sources of information;
- e. matching consultants' capabilities with the needs of the colleges is often not carried out until the evaluation stage of the tendering process has been reached. In part this relates to the difficulty which some colleges have in identifying appropriate consultants in the first place;
- f. astute colleges use initial discussions with potential advisers to help define or refine the scope and nature of the likely assignment (and hence the terms of reference), while also making a preliminary judgement about the suitability of the consultants. While more colleges could follow this example, all colleges should ensure that any preliminary talks take place within an appropriate procedural framework so as to maintain absolute probity and transparency in the purchasing process;
- g. there are problems in some cases in ensuring that consultants' proposals are truly comparable in terms of the scope and scale of the project which they are proposing to carry out. Too much emphasis is sometimes placed on price as the sole deciding factor in choosing a consultant/adviser rather than ensuring a proper balance between price and quality. To avoid the tendency of accepting whatever the consultant proposes as a fee structure, colleges should think more carefully about how their own interests are best served before agreeing to consultants' proposed arrangements for payment;

- h. there is scope for colleges to negotiate more effectively with consultants. Even with those colleges that do negotiate there is sometimes a tendency to assume that price is the only variable and to ignore issues such as work content, quality and payment terms;
- i. the form of contract used when buying consultancy should always be appropriate. Colleges should avoid using forms of contract which are more appropriate for the purchase of goods. Colleges should not accept the consultants' terms and conditions too readily;
- j. suppliers interviewed were sometimes critical of colleges' abilities in the area of project management. Some projects are small and do not require much project management, but there is evidence of difficulties with some consultancy assignments because of ineffective project management;
- k. procedures for formally drawing an end to assignments involving professional advisers and for reviewing the project need to be strengthened. Too often, payment of the final invoice is taken to represent the end of the assignment. There should be greater emphasis on a formal or semi-formal review to ensure that:
- terms of reference have been fulfilled
 - outputs or deliverables have been achieved or submitted to the college
 - a proper appraisal has been made of the performance of the consultants.
- This will help to ensure that the college obtains value for money from the last assignment as well as learning for the future;
- l. effective implementation of advisers' recommendations depends heavily on the commitment of management to achieving change and on the effectiveness of the monitoring procedures, where there are no formal procedures or where the consultants findings and recommendations are not what the college expected or even 'wanted to hear'. There is evidence that advice is not always acted on. Where recommendations are not accepted there should be a formal procedure for rejecting them and part of the procedure may include discussing the matter in detail with the consultants;
- m. there is little evidence of colleges regularly providing feedback to professional advisers on their proposals, their work or the results of their work. Post-contract evaluation has potential benefits both for colleges, in helping to assess the good and not-so-good aspects of the project, and for consultants in terms of providing better service in future.

Steering Group Membership

Gillian Cheal	Property adviser, FEFC
Stephen Criddle	Director of finance, Plymouth College of Further Education
Mark Dawe	Head of corporate services, Canterbury College
Satnam Gill	Director of resources, Newham Sixth Form College
Philip Head	Assistant director and head of property services*
Jenny Morgan	Regional property adviser, FEFC
Hugh O'Farrell	NAO
Michael Reeves	Director, NAO
Janice Shiner	Director, Education and institutions, FEFC [†]
Pauline Tiller	Chief auditor, FEFC

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